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# Section I: Using the Uniform Bank Performance Report for Financial Analysis

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## Summary

The Uniform Bank Performance Report is designed to be used by bank examiners and bank management evaluating the financial condition of banks. By analyzing the data contained in the UBPR, the user can obtain an overall picture of the bank's financial health and can discover conditions that might require further analysis and investigation. The UBPR is not designed to replace on-site examination or investigations but to supplement present examination procedures. It also functions as a common point of financial analysis between regulator and banker and can be useful as a part of a bank's own internal bank process.

The UBPR presents three types of data for use in the financial analysis of a bank: (1) the individual bank's data, (2) data for a peer group of banks similar in size and economic environment, and (3) percentile rankings. A thorough understanding of those data groups and their interrelationships and limitations is essential in order to use the UBPR effectively. As a general rule, any analysis should compare the bank to its peer group, consider the bank's trends over time, and also be aware of trends and changes in peer group averages.

This users guide does not present detailed in-depth instructions on ratio analysis, nor does it assign particular value to individual ratios or groups of ratios. Rather, it simply summarizes one way of using the UBPR for analysis; other approaches may be equally effective. Its primary purpose is to explain the calculations of individual ratios.

## Analytical Considerations

Effective use of the UBPR entails consideration of the level and trend of

individual ratios and the interrelationship among related ratios. No single ratio, percentile ranking, or trend is indicative of a bank's condition. Each bank has its own unique operating characteristics that affect both its balance-sheet composition and its income stream. A given bank may be above or below the peer group average for a given ratio, however that information must be considered in combination with other related facts including other UBPR data before its importance can be determined.

For example, if a bank's net interest income (TE) to average assets (UBPR page 01) is 3.03 percent compared with the peer group average of 3.96 percent, placing it in the 15th percentile, the bank may appear to be having profit-margin difficulties. However, if the bank's temporary investments (UBPR page 10) are 49 percent of average assets compared with the peer-group average of 17 percent and its volatile liabilities are 43 percent of average assets compared with 19 percent for the peer group, it can be concluded that the bank's assets and liability composition is substantially different from that of its peers. Thus, a lower net interest income (TE) to average assets ratio may be normal and proper, as would be a lower overhead expense to average assets ratio. Dependence on large time deposits and federal-funds purchased in short-term investments normally produces narrower profit margins and does not require as large a building, staff, or operating budget as engaging more heavily in retail activities.

However, overhead expenses that are not well below the peer group mean for such a bank could be cause for concern, because of the potential effect on earnings.

As the above example demonstrates, differences in assets and liability com-

position must be taken into consideration in order to properly interpret percentile rankings and ratio variations between the bank and its peer group. By employing percentile rankings and peer-group data as general guides or points of reference, rather than as strict bench marks, and by being aware of the interrelationship between the bank's balance sheet and its income statement, analysis may focus on those areas of a bank's operation that merit concern, thus providing a more complete understanding of the entire bank.

## Method of Review

The introductory page of the UBPR describes the bank's current peer group and the name and address of its holding company, if applicable. The primary financial analysis begins on UBPR page 01 with a review of summary ratios.

The Summary Ratios page (Page 01) presents the bank's average assets and net income in dollars; performance ratios, asset and liability management data, capital ratios, and growth rates. It also shows percentile rankings and peer-group averages. This page provides direction for analysis of the other sections of the report. After the summary ratios section has been analyzed, the bank's earnings section can be evaluated using a "Decision Tree" analysis approach. Note that the UBPR is organized so that ratios on page one are supported by details on subsequent pages. This approach is an attempt to explore how ratios are interrelated and how one ratio can affect other ratios, thus allowing the analyst to trace the source of a particular performance characteristic to its root cause.

For example, the interplay of rates earned on assets or paid on liabilities

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and the volume or mix of such assets and liabilities is segregated in the decision tree analysis.

Each component of a ratio and of each succeeding ratio can be determined by referring to Section III, where the method of calculating each ratio is explained. Exhibit I-1 charts the systematic process a user might follow in analyzing a bank's net income to average assets ratio.

Rather than trace each earning component separately, the analyst may review the earnings page in sequence to analyze the trend and interrelationships of these components while tracing their causes. Concurrently, the analyst may identify conditions that may be cause for concern and find corroborative evidence of conditions noted during the review of the sum-

mary ratios. This method allows for an orderly progression of thought and helps the analyst develop a perception of the bank as a whole.

This method of page-by-page review may be extended to the other sections of the UBPR. After completing the review of the last page of the report, the user should have a relatively comprehensive overview of the bank's financial condition and, possibly, a list of causes for concern that warrant further inquiry.

### **Peer Group, State Average and Distribution Reports**

The UBPR Peer Group Report and State Average Report present ratio averages for peer groups and States,

respectively. These reports are used to analyze conditions and trends in these banking industry groups. The group averages do not constitute normative or ideal values, nor does a group's set of averages necessarily constitute the typical financial structure of banks in that group. Each average stands by itself as a typical measure or middle point for that ratio within that group. Similarly, the distribution reports, which show several percentile values for UBPR ratios are designed to show the range of values that compose a given average. As such, they provide additional support to the argument that the averages represent a middle point and that most banks will fall on either side of that average. See Section II for technical considerations regarding averages.





